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The New York Stock Exchange

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Public Opinion

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OTTO H. KAHN

The New York Stock Exchange

AND

Public Opinion

By Otto H. Kahn

REMARKS AT ANNUAL DINNER
ASSOCIATION OF STOCK EXCHANGE BROKERS
HELD AT THE ASTOR HOTEL, NEW YORK
JANUARY 24, 1917

* * *

Published by The New York Stock Exchange

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The New York Stock Exchange

A COUPLE of weeks ago I went to Washington to contradict under the solemn obligation of my oath a gross and wanton calumny which, based upon nothing but anonymous and irresponsible gossip, had been uttered regarding my name.

On my way between New York and Washington, thinking that, once on the stand, I might possibly be asked a number of questions more or less within the general scope of the Committee's enquiry, I indulged in a little mental exercise by putting myself through an imaginary examination.

With your permission, I will read a few of these phantom questions and answers:

Should the Exchange Be "Regulated"?

Question:

There is a fairly widespread impression that the functions of the Stock Exchange should be circumscribed and controlled by some governmental authority; that it needs reforming from without. What have you to say on that subject?

Answer:

I need not point out to your Committee the necessity of differentiating between the Stock Exchange as such and those who use the Stock Exchange.

Most of the complaints against the Stock Exchange arise from the action of those outside of its organization and over whose conduct it has no control. No doubt there have at times been shortcomings and laxity of methods in the administration of the Stock Exchange just as there have been in every other institution administered by human hands and brains.

Some things were, if not approved, at least tolerated in the past which are not in accord with the ethical conception of to-day.

Should the Exchange be regulated?

The same thing can be said of almost every other institution, even of Congress. Until a few years ago, the acceptance of campaign contributions from corporations, the acceptance of railroad passes by Congressmen and Senators were regular practices which did not shock the conscience either of the recipients or of the public. Now they have rightly been made and are looked upon as crimes.

Ethical conceptions change; the limits of what is morally permissible are drawn tighter. That is the normal process by which civilization moves forward.

The Stock Exchange has never sought to resist the coming of that higher standard. On the contrary, in its own sphere it has ever endeavored to maintain an exemplary standard, and it has ever shown itself ready and willing to introduce better methods whenever experience showed them to be wise or suggestion showed them to be called for.

In its regulations for the admission of securities to quotation, in the publicity of its dealings, in the solvency of its members, in its

Should the Exchange be regulated?

rules regulating their conduct and the enforcement of such rules, the New York Stock Exchange is at least on a par with any other Stock Exchange in the world, and, in fact, more advanced than almost any other.

The outside market on the curb could not exist if it were not for the stringency of the requirements in the interest of the public which the Stock Exchange imposes in respect of the admission of securities to trading within its walls and jurisdiction.

There is no other Stock Exchange in existence in which the public has that control over the execution of orders, which is given to it by the practice—unique to the New York Stock Exchange—of having every single transaction immediately recorded when made and publicly announced on the ticker and on the daily transaction sheet.

I am familiar with the Stock Exchanges of London, Berlin and Paris, and I have no hesitation in saying that, on the whole, the New York Stock Exchange is the most efficient and best conducted organization of its kind in the world.

The recommendations made by the Commission appointed by Governor Hughes at the time were immediately adopted in toto by the

Stock Exchange. Certain abuses which were shown to have crept into its system several years ago were at once rectified. From time to time other failings will become apparent—there may be some in existence at this very moment which have escaped its attention—as failings become apparent in every institution, and will have to be met and corrected.

Should the Exchange be regulated?

I am satisfied that in cases where public opinion or the proper authorities call attention to shortcomings which may be found to exist in the Stock Exchange practice, or where such may be discovered by the governing body or the membership of the Exchange, prompt correction can be safely relied upon.

Sometimes and in some respects, it is true, outside observers may have a clearer vision than those who are qualified by many years of experience, practice and routine.

If there be any measures which can be shown clearly to be conducive towards the better fulfilment of those purposes which the Stock Exchange is created and intended to serve, I am certain that the membership would not permit themselves to be led or influenced by hidebound Bourbonism, but would welcome such measures, from whatever quarter they may originate.

Is the Exchange Merely a Private Institution?

Question:

Do I understand you to mean, then, that the Stock Exchange is simply a private institution and as such removed from the control of governmental authorities and of no concern to them?

Answer:

I beg your pardon, but that is not the meaning I intended to convey. While the Stock Exchange is in theory a private institution, it fulfills in fact a public function of great national importance.

That function is to afford a free and fair, broad and genuine market for securities and particularly for the tokens of the industrial wealth and enterprise of the country, i. e., stocks and bonds of corporations.

Without such a market, without such a trading and distributing centre, wide and active and enterprising, corporate activity could not exist.

Is the Exchange merely a private institution?

If the Stock Exchange were ever to grow unmindful of the public character of its functions and of its national duty, if through inefficiency or for any other reason it should ever become inadequate or untrustworthy to render to the country the services with constitute its raison d'être, it would not only be the right, but the duty of the authorities, State or Federal, to step in.

But thus far, I fail to know of any valid reasons to make such action called for.

Short Selling—Is it Justifiable?

Question:

You have commenced your first answer with the words, "I need not point out to your Commission." That is a complimentary assumption, but I don't mind telling you that we here are very little acquainted with the working of the Stock Exchange or the affairs of you Wall Street men in general. What about short selling?

Answer:

I do not mean to take a "holier than thou" attitude, but personally, I have never sold a share of stock short in my life.

Short sellers are born, not made. But if there were not people born who sell short, they would almost have to be invented.

Short selling has a legitimate place in the scheme of things economic. It acts as a check on undue optimism, it tends to counteract the danger of an upward runaway market, it supplies a sustaining force in a heavily declining market

at times of unexpected shock or panic. It is a valuable element in preventing extremes of advance and decline.

Short selling Is it justifiable?

The short seller contracts to deliver at a certain price a certain quantity of stocks which he does not own at the time, but which he expects the course of the market to permit him to buy at a profit.

In its essence that is not very different from what every contractor and merchant does when in the usual course of business he undertakes to complete a job or to deliver goods without having first secured all of the materials entering into the work or the merchandise.

The practice of short selling has been sanctioned by economists from the first Napoleon's Minister of Finance to Horace White in our day. While laws have at various times been enacted to prohibit that operation, it is a noteworthy fact that in every instance I know of these laws have been repealed after a short experience of their effects.

I am informed on good authority—though I cannot personally vouch for the correctness of the information—that there is no short selling on one nowadays fairly important Stock Exchange, —that of Tokyo, Japan. You will have seen in

Short selling Is it justifiable?

the papers that when President Wilson's peace message (or was it the German Chancellor's peace speech?) became known in Tokyo, the Stock Exchange there was thrown into a panic of such violence that it had to close its doors. It attempted to reopen a couple of days later, but after a short while of trading was again compelled to suspend.

Assuming my information to be correct, you have here an illuminating instance of cause and effect.

Short selling does become a wrong when and to the extent that the methods and intent of the short seller are wrong.

The short seller who goes about like a raging lion [or bear] seeking whom he may devour; he who deliberately smashes values by dint of manipulation or artificially intensified selling amounting in effect to manipulation, or by spreading alarm through untrue reports or even through merely unverified rumors, does wrong and ought to be punished.

Perhaps the Stock Exchange authorities are not always alert enough and thorough enough in running down and punishing deliberate wreckers of values and spreaders of evil omen; perhaps there is altogether not enough energy and determination in dealing with the grave and dangerous evil of rumor mongering on the Stock Exchange and in brokers' offices. But after all even Congress, with the machinery of almost unlimited power at its hand, does not always seem to find it quite easy to hunt the wicked rumor-mongers to their lairs and subject them to adequate punishment.

Short selling Is it justifiable?

Yet the unwarranted assailing of a man's good name is a more grievous and heinous offence than the assailing, by dint even of false reports, of the market prices of his possessions.

I need hardly add that the practices to which I have above referred are equally wrong and punishable when they aim at and are applied to the artificial boosting of prices as when the object is the artificial depression of prices.

Does the Public Get "Fleeced"?

Question:

We hear or read from time to time about the public being fleeced. There is a good deal of smoke. Isn't there some fire?

Answer:

If people do get "fleeced," the fault lies mainly with outside promoters or unscrupulous financiers, over whom the Stock Exchange has no effective control. Some people imagine themselves "fleeced," when the real trouble was their own get-rich-quick greed in buying highly speculative or unsound securities, or having gone into the market beyond their depth, or having exercised poor judgment as to the time of buying and selling. Against these causes I know of no effective remedy, just as there is no way to prevent a man from overeating or eating what is bad for him.

In saying this, I do not mean to imply that stockbrokers have not a duty in the premises.

Does the public get fleeced?

On the contrary, they have a very distinct and comprehensive duty towards their clients, especially those less familiar with stock market and financial affairs, and towards the public at large. And they have furthermore the duty to abstain from tempting or unduly encouraging people to speculate on margin, especially people of limited means, and from accepting or continuing accounts which are not amply protected by margin. In respect of the latter requirement, the Stock Exchange has rightly increased the stringency of its rules some years ago, and it cannot too sternly set its face against an infringement of those rules or too vigilantly guard against their evasion.

Against unscrupulous promotion and financiering a remedy might be found in a law which should forbid any public dealing in any industrial security [for railroad and public service securities the existing Commissions afford ample protection to the public] unless its introduction is accompanied by a prospectus setting forth every material detail about the company concerned and the security offered, such prospectus to be signed by persons who are to be held responsible at law for any wilful omission or misstatement therein.

Does the public get fleeced?

Such a law would be analogous in its purpose and function to the Pure Food Law, Any, let us call it, "anti-fleecing" law which went beyond that purpose and function would overshoot the mark. The Pure Food Law does not pretend to prescribe how much a man should eat, when he should eat or what is good or bad for him to eat, but it does prescribe that the ingredients of what is sold to him as food must be honestly and publicly stated. The same principle should prevail in respect of the offering and sale of securities.

If a drug contains water, the quantity or proportion must be shown on the label, so that a man cannot sell you a bottle filled with water when you think you are buying a tonic. In the same way the proportion of water in a stock issue should be plainly and publicly shown.

The purchaser should not be permitted to be under the impression that he is buying a share in tangible assets when, as a matter of fact, he is buying expectations, earning capacity or good-will. These may be, and often are, very valuable elements, but the purchaser ought to be enabled to judge as to that with the facts plainly and clearly before him.

The main evil of watered stock lies not in the

presence of water, but in the concealment or coloring of that liquid. Notwithstanding the unenviable reputation which the popular view attaches to watered stock, there are distinctly two sides to that question, always provided that the strictest and fullest publicity is given to all pertinent facts concerning the creation and nature of the stock.

Does the public get fleeced?

Do "Big Men" Put the Market Up or Down?

Question:

Is it not a fact that some of the "big men" get together from time to time and determine to put the market up or down so as to catch profits going and coming?

Answer:

As to "big men" meeting to determine the course of the stock market, that is one of those legends and superstitions inherited from olden days many years ago when conditions were totally different from what they are now, and when the scale of things and morals, too, were different, which it is hard to kill.

The fluctuations of the stock market represent the views, the judgment and the conditions of thousands of people all over the country, and indeed, in normal times, all over the world.

The current which sends market prices up or down is far stronger than any man or combination of men. It would sweep any man or men

aside like driftwood if they stood in its way or attempted to deflect it.

Do "big men" put the market up or down?

True, men at times discern the approach of that current from afar off and back their judgment singly, or sometimes even a few of them together, as to its time and effect. They may hasten a little the advent of that current, they may a little intensify its effect, but they have not the power to either unloosen it or stop it.

If by the term "big men" you mean Bankers, let me add that a genuine Banker has very little time and, generally speaking, equally little inclination to speculate, and that his very training and occupation unfit him to be a successful speculator.

The Banker's training is to judge intrinsic values, his outlook must be broad and comprehensive, his plans must take account of the longer future. The Speculator's business is to discern and take advantage of immediate situations, his outlook is for tomorrow, or anyhow for the early future; he must indeed be able at times to disregard intrinsic values.

The temperamental and mental qualifications of the Banker and Speculator are fundamentally conflicting and it hardly ever happens that these qualifications are successfully combined in one

and the same person. The Banker as a stock market factor is vastly and strangely overestimated, even by the Stock Exchange fraternity itself.

Do "big men" put the market up or down?

May I add, in parenthesis, that a sharp line of demarcation exists between the speculator and the gambler? The former has a useful and probably a necessary function, the latter is a parasite and a nuisance. He is only tolerated because it seems impossible to abolish him without at the same time doing damage to elements the preservation of which is of greater importance than the obliteration of the gambler.

To the Members of the Exchange

NOW by this time the Committee would surely feel that it has had a surfeit of my wisdom, as I am sure you must feel, but if you will be indulgent a very little while longer, I should like to say a few words more to you whose guest I have the honor to be this evening.

My recent observation of and contact with Congressmen and others in Washington have once more fortified my belief that the men by and large whom the country sends to Washington to represent it, desire and are endeavoring, honestly and painstakingly, to do their duty according to their light and conscience, and that, making reasonable allowance for the element of party considerations, they represent very fairly the views and sentiments of the average American.

Most of them are men of moderate circumstances. Very few of them have had occasion to

familiarize themselves with the laws, the history and the functionings of finance and trade; to come into relation to the big business affairs of the country, or to compare views with its active business men.

The pioneer period of economic development is ended

It may be assumed that, very naturally, not a few of them have failed to come to a full recognition of the facts that the mighty pioneer period of America's economic development came definitely to an end a dozen years ago, that with it came to an end practices and methods and ethical conceptions, which in the midst of the magnificent achievements of that turbulent period were, if not permitted, yet to an extent silently tolerated, and that business has willingly fallen into line and kept in line with the reforms which were called for in business as in other walks of our national life.

The opinions of the world, and particularly of the political world, travel along well worn roads. Men are reluctant to go to the effort of reconsidering opinions once definitely formed and fixed.

Many in and out of Congress are still under the controlling impress of the stormy years when certain deplorable occurrences affecting corporations and business men were brought to light,

when it was demonstrated that certain abuses which had accumulated during well nigh two generations needed to be done away with for good and all, and when the people went through the ancient edifice of business with the vacuum cleaner of reform and regulation, using it very thoroughly, perhaps, in spots, a little too thoroughly.

The vacuum cleaner of reform and regulation

Not a few politicians are still sounding the old battle cry, although the battle of the people for the regulation and supervision of corporations was fought to a finish years ago *and won by the people*, and although the people themselves of late, on the few occasions when a direct proposition has been put up to them, such as recently in Missouri, have indicated that they consider the punitive and probationary period at an end and want business to be given a fair chance and a square deal.

When the right of suffrage was thrown open to the masses of the people in England, a great Englishman said, "Now we must educate our masters."

In this country it is not so much a question of educating our masters, the people and the people's representatives [who, moreover, would resent and refuse to tolerate for a moment any

such patronizing assumption], as of getting them to know us and getting ourselves to know them.

The need for closer contact and better understanding

All parties concerned will benefit from coming into closer contact with each other and becoming acquainted with each other's viewpoints.

Can we honestly say that we are doing our full share to bring about such contact and to get ourselves and what we believe in properly understood, believe in not only because it happens to be our job in life and our self-interest, but because in the general scheme of things it serves a legitimate and useful and necessary function for our country?

How many of us have taken the trouble to seek the personal acquaintance of the Congressmen or Assemblymen or State Senators representing our respective districts?

How many of us make an effort to come into personal relationship with people, both here and in the West, outside of our accustomed circles? Yet an ounce of personal relationship and personal talk is worth many pounds of speech making and publicity propaganda.

When you look a man in the face and talk to him and question him and realize in the end that he is sincere in his viewpoint, whether you share it or not, and that he is made of the same

human stuff as you, and has neither horns nor claws nor hoofs, much animosity, many preconceived notions are apt to vanish and you are not so cocksure any longer that the other fellow is a destructive devil of radicalism or a bloated devil of capitalism, as the case may be.

"To be one of fifteen men around a table"

I recall in this connection an incident which concerns my great friend, the late E. H. Harriman. He talked to me about his wish to be elected to a certain railroad board. I said, "I don't really see what use that would be to you. You would be one of fifteen men, of whom presumably fourteen would be against you." He answered: "I know that, but all the opportunity I ever want is to be one of fifteen men around a table."

And the result has shown that that was all the opportunity he needed.

We cannot all have the conquering genius and force of a Harriman, but every one of us, in a greater or lesser degree, every one in some degree has the power of co-operating in the vastly important task of personal propaganda for a better understanding, a juster appreciation of each other, between East and West and South, between what is termed Wall Street and

the men who make our laws, between business and the people.

This is the age of publicity

This is the age of publicity, whether we like it or not. Democracy is inquisitive and won't take things for granted. It will not be satisfied with dignified silence, still less with resentful silence.

Business and business men must come out of their old time seclusion, they must vindicate their usefulness, they must prove their title, they must claim and defend their rights and stand up for their convictions. Nor will business or the dignity of business men be harmed in the process.

No healthy organism is hurt by exposure to the open air. No dignity is worth having or merited or capable of being long preserved which cannot hold its own in the market place.

Democracy wants "to be shown." It is no longer sufficient for the successful man to claim that he has won his place by hard work, energy, foresight and integrity.

Democracy insists rightly that a part of every man's ability belongs to the community. Democracy watches more and more carefully from year to year what use is being made of the rewards which are bestowed upon material

success, and particularly whether the power which goes with success is used wisely and well, with due sense of responsibility and self-restraint, with due regard for the interests of the community.

The use of the power that goes with success

And if the consensus of enlightened public opinion should come to conclude that on the whole it is not so used, the people will find means to limit those rewards and to curtail that power.

And what is true of the public attitude towards individuals holds good equally of its attitude towards organizations such as the Stock Exchange.

There can be little doubt that a great deal of misconception prevails as to its methods, spirit and practices, as to its functions, purposes and its place in the country's economic structure.

It is of great and urgent importance that the Stock Exchange should leave nothing undone to get itself better and more correctly understood. It should not only not avoid the fullest publicity and scrutiny, but it should welcome and seek them.

It has nothing to hide and it should be glad to show that it has nothing to hide. It should miss no opportunity to explain patiently and

The Stock Exchange a National Institution

in good temper what it is and stands for, to correct misunderstandings and erroneous conception.

If it is attacked from any quarter deserving of attention, it should go to the trouble of defending itself. If it is made the object of calumny, it should contradict and confound the slanderer.

Its members should ever remember that while in theory the Stock Exchange is merely a market for the buying and selling of securities, actually and collectively they constitute a national institution of great importance and great power for good or ill.

They are officers of the court of commerce in the same sense in which lawyers are officers of the court of law. They should not be satisfied with things as they find them, they should not take the way of least resistance, they should ever seek to broaden their own outlook and extend the field and scope of the Stock Exchange's activities.

One of the reasons for London's financial world position is that its Stock Exchange affords a market for all kinds of securities of all kinds of countries. The English Stock Broker's outlook and general or detailed information range over

American opportunity for foreign trade

the entire inhabited globe. It is largely through him that the investing or speculative public is kept advised as to opportunities for placing funds in foreign countries. He is an active and valuable force in gathering and spreading information and in enlisting British capital on its world-wide mission.

The viewpoint of the average American investor is as yet rather a narrow one. Investment in foreign countries is not much to his liking. The regions too far removed from Broadway do not greatly appeal to him as fields for financial fructification.

Yet, if America is to avail herself fully of the opportunities for her trade which the world offers, she must be prepared to open her markets to foreign securities, both bonds and stocks.

If America aspires to an economic world position similar to England's, she must have amongst other things financial [such as, first of all, a discount market] a market for foreign securities.

In educating first themselves and then the public to an appreciation of the importance and attractiveness of such a market, with due regard to safety, and to the prior claim of American enterprise in its own country, the members of

the Stock Exchange have an immense field for their imagination, their desire for knowledge and their energy.

We are at a turning point in American History

We all of us must try to adjust our viewpoint to the situation which the war has created for America, and to the consequences which will spring from that situation after the war will have ceased.

As Mr. Vanderlip so well said in a recent speech: "Never did a nation have flung at it so many gifts of opportunity, such inspiration for achievement. We are like the heir of an enormously wealthy father. None too well trained, none too experienced, with the pleasure-loving qualities of youth, we have suddenly, by a world tragedy, been made heir to the greatest estate of opportunity that imagination ever pictured."

America is in a period which for good or ill is a turning point in her history. Her duty and her responsibility are equally as great as her opportunity. Shall we rise to its full potentiality, both in a material and in a moral sense?

The words of an English poet come to my mind:

"We've sailed wherever ships can sail,
We've founded many a mighty state,
God grant our greatness may not stale
Through craven fear of being great."

It is not "craven fear" that will prevent us from attaining the summit of the greatness which it is open to America to reach, for fear has never kept back Americans—any more than Englishmen—and never will.

Indifference, slackness and sloth, lack of breadth and depth in thought and planning; the softening of our fibre through easy prosperity and luxury; unwise or hampering laws, inadequacy of vision and of purposeful, determined effort, individual and national, are what we have to guard against.

God grant America may not fail to grasp and hold that greatness which lies at her hand!

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